

Old Hard Currency Savings - The Key to Trust

When the citizens soon receive bonds for their "old" (blocked) hard currency savings, the question is what will they be able to do with them? Under the 1998 Law on the settlement of obligations resulting from old hard currency savings, these old hard currency savings have been transformed into the state's public debt, whereby an ambitious repayment plan has been established. At the beginning of July, the National Bank of Yugoslavia (NBj) stated that the citizens would be able to exchange their old hard currency savings up to the amount of 9,310 DEM for bonds. Those citizens whose deposits exceeding 10,000 German marks would be able to exchange the remainder of their savings for bonds at the beginning of next year.

Owners of hard currency savings accounts have two options. The first one is to cash their Series A bonds starting May 31, 2001. The remainder of their hard currency savings of 9,310 marks, worth 7,000 marks, is issued in the form of Series B bonds which can be cashed between the years 2005 and 2011 in 14 equal semi-annual installments.

The second option is the sale of bonds prior to their maturity date. According to the expectations of the NBj, trading with old hard currency savings bonds will begin at the Belgrade Exchange in the course of September 2001, as soon as the technical conditions for this are created. At the NBj, they expect in September 2001 the prices of Series A bonds, which mature on May 31, 2001, to range between 93.20% and 94.80% of the bonds' nominal value. In view of the fact that the hard currency reserves are high, and that the risk is, therefore, lower, it is probably only those in a hurry who will sell their bonds at the mentioned discount. Far more uncertain is the price of the entire package of bonds worth 9,310 marks, the value of which will be, as estimated, between 46.78% and 51.84% of the nominal value at the exchange in September. The mentioned discounts are obviously high, but also realistic in view of the limited funds the population is in possession of and the mistrust towards the state, coupled with the high political risk. Furthermore, one is to expect the formation of dual prices, at the exchange and outside it.

FRY Basic Economic Indicators	2000	2000 1999	VII 2001	VII 2001 VI 2001	VII 2001 VII 2000	I-VII 2001 I-VII 2000
GDP growth, in real 1994 prices ¹⁾	...	8.4%	...	...	...	...
Industrial Production	...	10.9%	...	-9.7%	-6.8%	-2.9%
Montenegro	...	3.7%	...	-9.3%	-14.6%	-0.4%
Serbia	...	11.4%	...	-9.7%	-6.2%	-3.1%
Central Serbia	...	12.0%	...	-4.2%	-8.4%	-6.6%
Vojvodina	...	10.1%	...	-20.1%	-0.8%	5.1%
Average nominal net wage - Serbia in Din. ¹	2,389	89.5%	5,427	9.1%	147.0%	135.1%
Real net wage - Serbia ¹	...	5.5%	...	7.2%	9.2%	5.5%
Average net wage - Serbia, in DEM ¹	93	-11.2%	178	9.2%	92.5%	83.2%
Average net wage - Serbia, in DEM ²	...	...	206	13.5%	...	...
Average gross wage - Serbia, in DEM ²	...	...	296	13.3%	...	...
Unemployment Rate - registered ³	28.38%	...	29.5%	-1.1%	3.6%	4.6%
Montenegro	...	...	39.7%	...	...	...
Serbia	27.45%	...	28.7%	...	...	...
Current account, in USD millions	-1,298	3.2%	...	...	...	...
Trade balance, in USD millions	-1,989	-10.6%	-138	14.1%	11.3%	15.8%
Export - USD million	1,713	15.0%	136	-1.4%	-15.5%	1.9%
Montenegro	157	31.1%	3	87.2%	-79.3%	-9.3%
Serbia	1,411	13.8%	133	-2.3%	-9.0%	3.4%
Import - USD million	3,662	12.6%	274	5.8%	-6.0%	10.0%
Montenegro	313	-1.0%	3	-75.4%	-91.3%	-75.3%
Serbia	3,035	15.6%	267	7.7%	3.3%	19.7%
Monetary supply (M1), end of period, in DIN billion	29.6	60.7%	45323.50	5.38%	104,24%	99.67%
Cash	10.3	39.8%	15102.70	7.55%	89.58%	87.40%
Deposits	19.3	74.9%	30220.80	4.32%	112.45%	107.24%
Real money supply, end of period, in DM million	1,043	-26.7%	1490.41	5.18%	94.82%	72.67%
Hard currency reserves, in million USD (end of period)	524	76.2%	901	2.5%	...	...
Discount rate	...	...	1.90%	0.0%	-5.00%	-23.00%
Market interest rate, monthly level	5.84%	37.3%	4.96%	1.02%	-21.64%	-1.63%
Retail prices - Serbia	...	70.0%	...	2.4%	119.6%	118.4%
Consumer prices - Serbia	...	79.6%	...	1.8%	126.1%	122.9%
Producer prices - Serbia	...	102.6%	...	-0.1%	104.0%	117.8%
Average exchange rate - Din./DEM	25.45	103.2%	30.41	-0.1%	28.3%	34.1%

¹⁾ Figures refer to FRY without Kosovo

²⁾ Comparable to the average net wage calculated according to the method applied until June 1, 2001.

³⁾ By the gross wage calculation methodology applied as of June 1, 2001.

⁴⁾ Figures refer to June 2001.

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The existing law offers hard currency savings account owners some other options provided by old hard currency savings bonds. Prior to their maturity date, the bonds can be used for purchasing the shares of companies undergoing the process of ownership transformation for the purpose of selling social capital, for the purchase of shares of the authorized banks where the hard currency savings are deposited up to the amount of their share in the hard currency savings bonds, and also for the purchase of apartments, housing facilities, business space, land and other state-owned property. Before they mature, hard currency savings bonds can also be used for paying medical expenses, buying medicine, for funerals and in other cases up to the amount of the actual costs.

Regarding the use of bonds for the purchase of shares, the Law on Privatization stipulates that old hard currency savings bonds can be used only before they mature for the purchase of shares in the privatization process. Thus, the Law on Privatization limits the rights of the holders of bonds in regard to the purchase of the shares of companies defined by the Law on the settlement of obligations resulting from old hard currency savings. By including this provision in the Law on Privatization, the law-maker wanted to prevent speculative activities by individuals possessing large amounts of cash, who would first purchase old hard currency savings bonds on the secondary market at a large discount, only to buy shares of companies at the nominal values of bonds afterwards. Since it would not pay to purchase shares for cash in such conditions, buyers offering cash would be disadvantaged and everything would somewhat resemble a "quasi-voucher" privatization. Prior to their maturity date, bonds can be used in the privatization process only if the capital or property had not been sold for the domestic or a convertible foreign currency in the process of sale through a public auction. This has left space for owners of hard currency savings accounts to take part in privatization, but it is necessary to regulate more precisely the manner in which this transaction is carried out and to introduce certain incentives.

Under the law, the sources for paying out old hard currency savings are the property and income resulting from the property of debtor banks; 25% of the funds obtained through the sale of social capital; borrowing abroad; income from the sale of state-owned business space; and the federal and republic budgets.

The question arises as to how realistic are possibilities for repaying the old hard currency savings from the mentioned sources. What is certain is that the state must assume responsibility for repaying the citizens' hard currency savings and that its property, especially state-owned business space, should serve to settle these obligations. In this regard, it is necessary first to consider the property of federal bodies, since any outcome of the referendum in Montenegro will imply the reduction of the state administration. The funds achieved through the privatization of state-owned companies should serve for repaying old hard currency savings, but the amount of funds that would be collected in this manner and in what period remains highly uncertain. In the future, there must be no repetition of the situation we had with the sale of Serbia Telecom when not a single Mark was used for repaying the old hard currency savings, but rather all the funds were spent for the pre-election promotion of the ruling parties. Regarding income from the sale of social capital, since the privatization of the major socially-owned companies is expected in the upcoming period, certain funds should be expected from this as well. Knowing that the budgets of the federation and republics are in a deficit, it is clear that regular budgetary revenues do not represent a realistic source for repaying old hard currency savings in the near-term.

The obligations concerning the repayment of old hard currency savings according to the dynamics set by law will expand considerably as of 2005 and in the following years when they will amount to over two percent of the projected GDP. That is why, according to the present plan of repayment, bonds have been issued only up to the amount of 9,310 marks per account. In talks with the International Monetary Fund, a new plan of repayment for the year 2005 and the following years in the context of the second revision of the stand-by arrangement will be considered. In these talks, the federal and republican governments agreed to change the original plan of repayment so that the annual amounts for repayment would not exceed 0.9 percent of the projected GDP for 2005 and the following years. Therefore, it is possible that the law on old hard currency savings would be amended next year.

The experiences of the two most developed republics of the former Yugoslavia are useful for comparative purposes. In 1993, Slovenia adopted a Law on settling obligations resulting from unpaid hard currency savings. Under this law, the obligations of banks, worth 976 million DEM on December 31, 2002, became the public debt of the Republic of Slovenia. Bonds were issued for the debt of the Republic of Slovenia towards banks, which will fall due on June 30, 2022. The bonds bear 8 percent interest which is collected twice a year. If they are unable to make the citizens' hard currency deposits immediately available in line with the contract, banks are obliged, starting January 1993, to grant depositors semi-annual disposals of at least one tenth of the hard currency deposit in amounts of no less than 1,000 DEM. Hard currency deposits bear interest according to the valid interest rates for time deposits plus at least 0.25 percentage points annually. In this manner the law stimulates banks to settle their obligations towards the citizens as soon as possible. Citizens may also request that the bank give them transferable bonds of the Republic of Slovenia of equal nominal value to their hard currency deposit. These bonds are cashed in semi-annual annuities, whereby the first annuity fell due on November 30, 1993 and the last is to fall due on May 31, 2003. It is by the amount of the bonds the Republic of Slovenia gave hard currency depositors that the Republic of Slovenia's debt towards banks is reduced. The citizens of Slovenia can use these bonds for purchasing shares in the process of privatization, buying up their length of service for retirement, buying their apartments, or paying taxes and duties on the citizens' income and customs activities.

In 1991, Croatia exchanged the old hard currency savings, worth 5,034 billion DEM, for state bonds which are to be repaid in 20 semi-annual installments, whereby the first installment fell due on June 30, 1995, and the last is to fall due on June 30, 2005. The bonds bear interest of 5% on an annual basis, and the interest is calculated starting from January 1, 1992. Apart from waiting to be paid out their hard currency savings in 20 semi-annual installments, the citizens of Croatia may also use the old hard currency savings bonds for purchasing socially-owned apartments over which they hold tenancy rights, as well as shares of companies in the process of privatization. Thereby, on the day when the first installment of the old hard currency savings fell due, June 30, 1995, the debt resulting from old hard currency savings was already reduced by a full 2.084 billion Marks to 2.950 billion DEM.

The issuing of bonds for old hard currency savings would represent an important step towards the resolution of this acute problem, now a rope around the neck of our banking system and the economy in general. It would contribute to returning confidence to the banking sector while enabling hard currency depositors in need of liquidity to sell their bonds on the secondary market and thus obtain the necessary cash, reduced by the discount, even before the bonds mature. The extent to which depositors will take advantage of this possibility will depend on the price achieved on the market. The cases of Slovenia and Croatia show us that the state's commitment to settle its own obligations towards the population is crucial for success in resolving the problem of the hard currency savings. Otherwise, the very act of exchanging outstanding claims for bonds will bring about no essential progress.

Low Wages and Diminishing Patience

Results of the first G17 Institute poll on the population's income and opinions

Goal and sample of the poll

The G17 Institute conducted in July the first of what will be a regular semi-annual poll on the income and opinions of the population of Serbia. Its results contain detailed information about the demographic characteristics of the population, the sources of total income, certain major expenditures, as well as the population's stands and expectations concerning the upcoming reform processes in Serbia. Due to limited space, the Economic Review will present only select indicators calculated on the basis of the Poll. The database built through conducting the poll at regular time intervals will facilitate the monitoring and comparative analysis of changes in the demographic and social-economic characteristics of the population, and of opinions regarding the speed of the implementation of reforms in the economy and the impact of changes in society on the position of the population.

The Poll's sample was drawn from three areas on the territory of Serbia – Central Serbia, Vojvodina and Belgrade. A total of 2006 households were polled, 53.5% of which in Central Serbia, 25.9% in Vojvodina and 20.8% in Belgrade. Out of the total number of polled households, 89.4% are non-agricultural, while 53.6% are urban households. The sampling method is based on the principle of a geographic stratification of the entire population. At the first level was the stratification of municipalities by districts, whereby each district represented a special stratum. The district was further stratified into the urban and rural area. A methodology of three-stage stratified sampling was applied to these units. The sample was allocated through a combination of the proportional and optimal methods of allocation. The units of the first stage are local communities. A cluster of 10 households was polled in each local community. The observed units in the second stage are individual households, while in the third stage, a person over 18 years of age from each household was selected at random, so that the Poll contains aggregate information about the entire household and individual information obtained through the polling of a respondent chosen at random.

Review of the basic indicators assessed on the basis of the poll

The average age of the respondents is 46 years. Women account for 51.7% of those polled and 63.1% of the respondents are married. A very high percentage of the polled households, as many as 87.1%, do not have children up to 5 years of age, and 66.2% of the polled households do not have children between the ages of 7 and 19. According to the poll, the average number of children up to the age of 14 per household is 0.5, while the average number of members of a household is estimated at 3.4. This number is reduced, from the first (poorest) decile, in which it is estimated to stand at 4.3 members, to 2.6 members in the last (richest) decile.¹

The unemployment rate is 14.3%, calculated on the basis of figures from the Poll.² Over half the respondents have completed a high school education. Men have an average of 11.6 years of finished school, while women have a year less. A decile analysis shows that the average number of years of schooling of the respondents who belong to the poorest layer of the population, i.e. to the lower decile groups, ranges between 9.4 and 10.7, and averages at 12.5 years in the highest decile, among the richest. However, it is not possible solely on the basis of this to conclude that belonging to a given social and economic group is largely correlated with the achieved level of education.

The financial situation of households in Serbia can also be assessed through the monitoring of their housing conditions, possession of durable consumer goods, the freedom to go on vacation and so on. The estimated housing space per member of a household is 28.8 square meters, or one room on the average. Of the households polled, 20.2% do not have a telephone, while 6.4% have no bathroom. However, 13.2% of the households polled possess a personal computer. When speaking of the possession of durable consumer goods, most households polled have household appliances, but this tells us nothing about how worn they are. The age of an automobile can be one of the indicators of the condition the consumer goods. The average age of automobiles owned by Serbian households is estimated by the poll to be 14 years, while 47.2% of the households polled have no car. Only 26.8% of the house-

Table 1. Structure of respondents by activities

Activity of respondent	%
Other than agriculture	47.1
Farmer	5.9
Seasonal Labor	0.2
Part-time employed	2.7
Unemployed-seeking work	8.6
Pensioner	21.7
Housewife	8.2
Student	5.3
Invalid	0.2
Total	100

Source: G17 Institute Poll on the population's income and opinions

Table 2. Structure of respondents by education

Level of Education	%
No education	3.2
Grades 1-3	2.2
Grades 4-7	4.4
Primary school	14.9
High school	56.7
Two-year post-secondary	8.2
University	10.3
Total	100

Source: G17 Institute Poll on the population's income and opinions

¹ The reduction of the number of household members with the level of the per capita household income is also partly the result of the fact that the total income of a household is simply divided by the number of members. If we were to divide the household's income by the number of conditional non-durable units (so that children would have a smaller weight or a larger household would achieve an economy of scale), multi-member households would be richer than in the case of the per capita analysis and the pattern pattern according to which the average number of the household members drops with the growth of the decile group would be partially lost.

² Unemployment has been calculated as the ratio between the unemployed (8.6%) and the sum total of those employed in the non-agricultural sector, farmers, assisting members, occasionally employed and unemployed (a total of 64.5% of the population).

The first of semi-annual surveys on demographics and attitudes in Serbia

The average age of a car is 14 years; 20.2% of households lack a telephone

38% take second jobs,

...more than doubling their income

holds polled can afford a summer or winter vacation for its members. The households polled include a small number of refugees, either because they have left the country or changed their status. Refugees live in only 3.2% of the polled households, and their share in the overall polled population of 3.3% (as opposed to the little over 6.5% from the latest official statements), points to the underestimation of this category of the population in the poll's sampling design.

Sources and structure of total income

An analysis of the structure of total income according to sources indicates that households polled in Serbia achieve over 50% of their income by earnings from their main activity. However, this structure differs somewhat between agricultural and non-agricultural households. Among agricultural and mixed households, a considerable share in the structure of total income is that of income from one's own land and the estimated value of production for one's own needs (natural consumption), which accounts for 46% of total income. In non-agricultural households, these sources of income account for

Table 3. Structure of Household Income and Expenditures for Food

#	Income source	Households in Aggregate	Non-agricultural Households	Agricultural Households
1	From work within main activity	51.2	53.6	30.6
2	Additional activities	10.2	10.4	9.1
	Total from work (1+2)	61.4	64.0	39.7
3	From sick-leave	0.3	0.3	0.1
4	Social welfare	0.2	0.2	0.1
5	Pensions, disability benefits	12.3	13.2	4.7
6	Children's allowance	1.0	0.9	1.5
7	Unemployment benefits	0.2	0.2	0.2
8	Scholarships	0.2	0.2	0.1
	Total social benefits (3+4+5+6+7+8)	14.2	15.0	6.7
9	Gifts in money from the country	1.5	1.7	0.4
10	Gifts in money from abroad	2.4	2.3	3.5
11	Gifts in goods and services from the country	1.3	1.4	0.9
12	Gifts in goods and services from abroad	1.4	1.4	1.8
	Total remittances and gifts (9+10+11+12)	6.6	6.8	6.6
13	Sale of products from personal land	9.6	7.4	28.5
14	Benefits and subsidies	0.3	0.3	0.1
15	Rent, interest, dividends	1.6	1.7	0.9
16	Subsistence production	6.0	4.7	17.5
	Total income	100	100	100
	% of income spent for food	42.7	44.1	30.4

Source: G17Institute Poll on the population's income and opinions

only 12 percent of the total income. On the other hand, social welfare income is of greater significance in the structure of the total income of non-agricultural households and accounts for 15% (as compared to 6.7% in agricultural and mixed households). Regarding pecuniary income from remittances and gifts from the country and abroad, there is no major difference among the observed categories of households. The poll did not encompass all the expenditures of a household, which will,

therefore, not be separately presented, except for expenditures for food which account for around 43% of the total income of all households, this percentage being similar to the one obtained by the Poll on Household Consumption (PHC) conducted by the Federal Bureau of Statistics (SZS).

The value of the average monthly income of a household per capita, estimated on the basis of the Poll, is 4,490.9 dinars or 147.5 DEM. The average monthly net wage from the main activity, estimated by the poll, is 5,899 dinars (almost 200 DEM), which does not differ significantly from the published June wage in Serbia of 5,530 dinars. The average wage achieved through additional work among those polled is 6,343 dinars, and 38% of respondents are engaged in some form of addition-

Table 4. Household income per capita and structure of selected sources by deciles

Deciles	Monthly household income per capita (in DIN)	% Of Selected Income Sources ¹				
		Wages from main activity	Wages from additional activity	Pensions	Remittances and gifts	Income from land
First ²	1,021.4	45.9	9.7	13.9	3.0	8.8
Second	1,857.5	52.7	10.8	14.9	1.8	6.1
Third	2,353.6	58.5	8.7	10.9	3.5	5.2
Fourth	2,843.1	53.2	8.4	16.5	4.0	5.9
Fifth	3,324.5	49.5	7.8	17.5	4.3	7.8
Sixth	3,904.4	55.7	10.3	13.5	3.0	7.5
Seventh	4,699.3	58.7	7.7	11.8	4.8	7.0
Eighth	5,562.4	52.0	12.1	14.8	4.7	5.7
Ninth	6,948.3	49.0	10.3	14.0	6.7	12.0
Tenth	12,613.6	46.8	11.7	7.6	12.5	14.3
Total	4,490.9	51.2	10.2	12.3	6.6	9.6

¹ These five sources of income do not make up the total. A more detailed structure of the sources of income is presented in the previous Table.

² The first decile includes 10% of the people with the lowest household income per capita, etc.

Source: G17 Institute Poll on the population's income and opinions

al work, apart from their main activity. The average net wage per hour of work within the primary activity is 38 dinars (1.3 DEM), and from additional work 54.3 dinars (1.8 DEM).

The average monthly income of the poorest part of the population is 12 times lower than the average monthly income of the richest, and four times smaller than the estimated average of all households. The Gini coefficient is 37, which is several points higher than the inequality in Poland, and almost equal

to that in Bulgaria, Croatia and the Baltic states.³ The Gini coefficient of 37 is considerably higher (the inequality is greater) than the one calculated for the year 2000 on the basis of the PHC. This does not necessarily indicate a true increase in the inequality in the last period, but it can also be the result of differing sampling methodologies. While the Poll of the G17 Institute deals with only a one-month period, the PHC covers a longer period (6 months). It is well known that the extension of the observed period reduces inequality.

Wages as a percentage of total income do not oscillate considerably by decile groups, retaining the largest share in the income of all the social-economic groups of the population. The drop in the share of wages from the main activity in the fifth decile is compensated for by an increase in the contribution of pensions and income from one's own land. It is interesting to note that pensions are in inverse proportion to the trends of other selected sources of total income by deciles. Among the poorest part of the society, pensions are a more significant source of total income than among the richest, which attests to the fact that pensioners are mostly ranked among the poorest (first and second) decile groups. Remittances and gifts from the country and abroad have the largest share in the total income of the richest, exceeding over 50 times the value of remittances and gifts received by the poorest. It is very interesting that the received gifts and remittances represent an important element in explaining the fact that they belong to the highest income group. In the last decile, income from land is, on average, 20 times larger than in the first decile.

Opinions of the population

One of the main goals of the Poll is to monitor the changes in the population's opinions in the course of the transition, and to attempt to explain them with "objective" factors, such as change of income, level of education, place of residence, field of activity etc. We are, thus, also able to approach an explanation of the formation of the population's opinions and present to those conducting economic policy with how some of the economic measures are perceived by the population. This is especially important in the period of transition when the intensity of economic change is high, and when subjective perception can influence the sustainability of the given policy even more than "objective" changes in indicators.

The most important variable in the sphere of the population's opinions is the self-evaluation of the households' economic situation. Possible grades range from 1 (very bad) to 5 (very good). It is no surprise that 58 percent of the respondents assessed their economic situation as very bad and bad (grading it with a 1 and 2). A little over 1/3 believe that their economic situation is mediocre, while less than 7 percent assess it to be very good and excellent. The average grade is 2.27. This average grade will be monitored from poll to poll, and will be used as the G17Institute Index of the Economic Situation. Below, we will present the factors influencing this assessment.

Reforms and privatization or reforms or privatization?

Between the stand concerning the need for speedy reforms and the stand regarding the desirability of privatization there is a positive, but quite mild correlation (0.2). As shown in Table 5, those who support the acceleration of reforms account for the unusually high 94%, while privatization is supported only by a little over 2/3. Quite interesting is the fact that almost 2/3 of the population have a positive attitude to both privation and speedy reforms, and that practically all of them support privatization, at the same time advocating speedier reforms as well. On the other hand, there is a considerable percentage (over %) of those who support speedy reforms, but are against privatization. The entire population obviously does not equate speedy changes with privatization.

Expectations: realistic or not?

The next interesting variable is how the population compares its influence on social trends as opposed to a year ago – meaning before the change of the regime. A small improvement is noticeable in this regard. While a year ago, as much as 68% of the population believed their influence on social trends was non-existent (giving it the lowest possible grade between 1 and 10), today this percentage is somewhat lower at 64%. All in all, there is a slight improvement in the assessment of one's own influence, and in expectations of a considerably higher influence within a year's time. Thus, while the average subjective "gain" in the social influence accounted for only 0.02 points over the past 12 months, the population expects to gain over 0.42 points, which is an increase by as much as 20 times over. It is necessary to pay attention to this fact, since such expectations are probably unrealistic – but they can largely shape and affect the population's political mood.

While 92% of the population expects an improvement in the economic situation in the future (only 8% are total pessimists and do not believe "a better tomorrow" will ever come), it seems that the population is not unrealistic in its expectations. Thus, for instance, % of the people believe that an improvement will take place in no less than two or more years. To sum this up, we could say that 8 percent are total pessimists, around 17 percent are impatient and expect progress within the following year, while the others are ready to wait (or at least they do not believe it will be better) for another 2 or 3

Remittances are a major source of income for the wealthiest

2/3 support both speedy reforms and privatization

Table 5. Stands on privatization and acceleration of reforms

Stand on quick reforms	Stand on privatization		
	Negative	Positive	Total
Negative	4.2	1.9	6.1
Positive	28.4	65.6	93.9
Total	32.6	67.4	100

Source: G17 Poll on the population's income and opinions

³ The value of the Gini coefficient ranges from 0 (full equality) to 100 (one person possesses the society's entire income). The inequality in West European countries is around 35, in America and Russia around 40, most Latin American countries over 45. The countries with the highest degree of equality are the Czech Republic and Slovakia, as well as Scandinavian countries, with a Gini coefficient of below 25.

Only 8% are pessimists, while 75% expect improvement in two or more years

years. It is interesting to compare these results to the identical question about expectations concerning improvement of the situation in the companies where the respondents work. Pessimism is far less pronounced here. As many as % of the people expect an improvement in the company over the next 12 months which is twice the level of those who expect an improvement in their own economic situation in the same period.

Table 6. Self-Evaluation of Economic Position Ten Months into the Transition

Cause of Deterioration (only for losers)	Losers	No Change	Gainers
I am not managing	3.5	-	-
Present government's policy	15.1	-	-
Former Regime	11.9	-	-
Other reasons and no answer	10.4	-	-
Total	40.9	48.9	10.2

Source: G17 Poll on the population's income and opinions

Over 40% of respondents believe their economic situation deteriorated over the past six months. Only 10% said it had improved, while the remaining 50% have an unchanged situation. The fact that the number of "losers" exceeds the number of "gainers" by 4 to 1 is quite certainly something that should give the present authorities reason for serious concern. A positive circumstance, however, is the fact that, among those whose situation has deteriorated, a considerable percentage (over %) blame the

Table 7. Main Characteristics of Losers and Gainers

	Losers	Gainers
Average age (in years)	47	44
Men (%)	47	56
Average number of years of education	10.9	12.1
Works in the private sector (%)	32	35
Works as an expert (%)	5.7	10.4
Urban residence (%)	54	61
Average monthly income per capita (in DIN)	4,074	6,289

Source: G17 Poll on the population's income and opinions

previous regime for this.

As shown by Table 7, the characteristics of the losers and gainers largely differ. The gainers are younger, men are more numerous among them than women, they are more educated, most of them are employed in the private sector (even though the difference in this regard is quite small), and finally the urban population and experts are far more present among gainers than losers. For example, as regards this last instance, experts account for over 10% of the gainers, which is double their percentage among the losers. Therefore, the first 6 to 9 months of our transition demonstrated trends similar to those in other countries

in transition: the main gainers in the period of transition to a market economy are young, educated people and the urban population. The losers are among the elderly, uneducated and rural population. Do the present losers expect to become gainers within the next six months? The answer to this question is provided by the transitive matrix in Table 8. Those whose economic situation has deteriorated still largely expect to remain losers. Only % of them believe there will be some improvement. On the other hand, 45 percent of those whose economic situation did not change in the previous period expect an improvement, as do as many as 70 percent of those whose economic situation has already improved. Of course, the total percentage of those who expect an improvement and those expecting a deterioration over the next 6 months largely differ from the results achieved by the economic policy over the past 6 months. Unlike the previous results which, to use sports terminology, can be presented as 1 (victory = improvement), 5 (ties = the same) and 4 (defeats = deterioration), during the next

Table 8. Transitive Matrix

Change of one's own economic situation over the last 6 months	Expected change of one's own economic situation over the next 6 months			
	Worse	The Same	Better	Total
Worse	38	37	25	100
The same	8	47	45	100
Better	7	23	70	100
Total	20	40	40	100

Source: G17 Institute Poll on the population's income and opinions

six-month period the population expects a result of 4-4-2. The main challenge will, therefore, be to improve the position of 40 percent of the people, instead of only 10 percent.

Of course, table reviews (such as in Table 7) do not allow us to distinguish with precision the factors that have an impact on the given result. For instance, does the fact that gainers are more educated than losers result from the fact that a larger number of them are men (who are more educated than women on average), or the fact that more of them live in towns (which have a better educational structure than villages), or perhaps from the fact that there are more experts among the gainers? For an assessment of the significance of each of these factors we need a regression analysis, which is precisely the subject of the following section.

How to explain the opinions of the population and the success of the individual?

We will try to explain what stands behind the two results we have already reviewed: (I) the assessment of the economic situation of one's own household, and (II) the division into gainers and losers. Table 9 shows that the variables explaining these results differ considerably.

Let us first observe the assessment of the economic situation. Every increase in income by 10 percent improves the respondents' opinions about their own economic position by almost 0.05 points (on a scale of 1 to 10). This is, of course, expected. More interesting is how other factors – when we have

Losers outweigh winners 4:1

a given income – affect the assessment of the economic position. Better education, a subjective improvement of the social position (following the October 5 revolution) and youth also have an impact on a better assessment of one's own economic situation. When we also include in the regression the activity the respondent is engaged in, we see that no differences appear in most of the cases. For instance, there is no difference between farmers and those who are not engaged in agriculture. Differences exist only in the case of the unemployed, as well as students who see their situation as more unfavorable (at the given level of income, age, education etc.), and among housewives who assess their situation as more favorable. We can conclude that higher income is also very important for the improvement of one's opinion about one's situation, but that this opinion is also largely influenced by other factors such as the level of education, age of the respondent, and probably also the attitude to the October events.

Even more interesting are the results we obtain when attempting to establish which factors explain gain (increase in real income) over the past six months. We have introduced all the relevant factors in the regression. Apart from those from the first regression, we have also included (1) the place of residence, (2) position (manager, expert, worker etc.), (3) region (Vojvodina, Belgrade, Central Serbia), (4) type of the ownership of the company where the respondent works etc. None of these factors have proved to be statistically significant. While a higher level of education and the male sex still remain statistically important factors for explaining success, we now see that the other factors which we believed, based on the tabulation, to be significant as well, such as the age of the respondents, position (expert), place of residence (urban as opposed to rural), did not have an impact on the success of individuals in the previous course of the transition. Actually, in the tabulation (like in Table 7) they seemed important precisely because of their correlation with the level of education (for instance, the position of an expert, place of residence etc). When we include all this in the regression, it is only the level of education and sex that prove to be statistically significant and, in the negative sense, employment in agriculture. Thus, for instance, if all the variables are absolutely identical, and if only the sex is different, the probability of the man being the gainer is by 28% higher than in the case of the woman; every additional year of schooling increases the probability of success (relative to the probability of a loss) by 11%.

This means that there are both positive and negative elements. It is quite certainly positive that the level of education represents an important determinant of success. On the other hand, it seems that women have become losers to a far greater extent than man. Of course, the reason for this does not have to lie only in discrimination. It is possible that there exist certain unobservable factors as well (for example, entrepreneurship, ambition, connections – and even corruption) which are perhaps more present among men than women and which have led to this result. Still, it will be interesting to see whether such results will appear in the following Polls as well. It is also interesting that other factors often believed to be important for success (youth, urban settlement, managerial post) have so far not proved to be of any significance.

Table 9. Regression Results

Independent Variables	Dependent Variables	
	Self-evaluation of Economic Situation (OLS)	Gainer=1 Loser=0 (probit)
Coefficient (standard error)		
Log income per capita	0.472 (0.000)	
Education (number of years)	0.015 (0.038)	0.110 (0.01)
Change of social influence	0.036 (0.000)	0.064 (0.04)
Age	-0.032 (0.000)	0.005 (0.90)
Age (square)	0.0002 (0.001)	0.0002 (0.90)
Sex (male=1)		0.281 (0.03)
Farmer	0.049 (0.61)	-6.716 (0.000)
Seasonal laborer	-0.170 (0.67)	
Pensioner	-0.054 (0.41)	
Housewife	0.158 (0.048)	
Student	-0.194 (0.035)	
Invalid	-0.093 (0.78)	
Private sector		0.173 (0.28)
Expert		0.046 (0.86)
Clerk		0.094 (0.69)
Skilled worker		-0.010 (0.97)
Unskilled worker		-0.157 (0.73)
Occasionally employed		0.50 (0.52)
Unemployed	-0.174 (0.013)	
Belgrade resident		0.085 (0.62)
Central Serbia resident		-0.021 (0.88)
Urban resident		-0.09 (0.52)
Constant	-1.022 (0.001)	-2.47 (0.01)
R ² (F)	0.18 (33.4)	
Number of observations	2,006	574

Note: The coefficients that are statistically significant at less than 5% are shaded. Left out of the first regression is the category of "employed in other than agriculture". Omitted from the second regression are the categories of "employed in other than agriculture", "manager", "in the social sector", "living in Vojvodina", "in an urban settlement". An empty field means that the variable is not included in the regression.

Source: G17Institute Poll on the population's income and opinions

**Higher education is
the key for early
gainers**

MACROECONOMIC REVIEW

Prices

According to figures of the Republican Bureau of Statistics (RZS), retail prices in Serbia increased by 2.4% in July. As expected, the existing price distortions, especially in the case of the prices of telephone services and tobacco, are being corrected, while pressures for the further correction to the prices of municipal services continue to mount. For this reason, the growth of the general price level was mostly comprised of increases in the prices of domestic cigarettes and telephone impulses. In

July, the prices of the producers of industrial products fell by 0.1%, while the prices of services grew by 5.2%.

Inflation in the July 2000 – July 2001 period was 118.7%. Retail price growth in the first seven months of 2001 reached 26%.

Consumer prices in Serbia were up by 1.8 percent in July. In the group of consumer prices, the prices of tobacco grew by 12.4%, while the prices of PTT services went up by 54.8% month-on-month. Overall inflation in the first seven months, measured by the consumer price growth, was 31.7%. In the July 2000 – July 2001 period, annual inflation expressed in consumer price units accounted for 122.9%.

As announced in the previous issue, as of this month, the Bulletin will monitor the monthly index of the basic inflation in Serbia until the end of the year. Let us recall that basic inflation is inflation measured by the consumer price index from

which the components of goods and services with controlled prices have been excluded. The very methodology of calculating the index has remained unchanged. Eliminated from the consumer price index are bread, milk, meat, electricity, municipal services, and this time transport and PTT services as well. The measurement of basic inflation encompassed a total of 66.6% of the goods and services in the consumer basket. Since the database of the RZS was used this time, changes were also made in the use of weights (bread (0.0504), meat (0.1202), milk (0.0348), municipal services (0.0167), electricity (0.0783), transport and PTT services (0.0348)).

As we have mentioned, inflation measured by consumer prices was 31.7% in the first seven months of this year. This time, our index has eliminated 33.42% of the goods and services, whereby it has largely, but not totally eliminated the effects of the changes of the prices of the part of the goods and services that are under a price control regime. One should recall that, over the past years, as much as up to 55% of goods and services were under full or partial control.

Within the 31.7% inflation measured by consumer prices, 20.12 percentage points actually represent the part of the transferred inflation which includes the correction of the prices in basic foodstuffs, electricity, and municipal, transport and PTT services. We have linked the remainder, i.e. 11.58 percentage points, to the price trends of other goods and services. That is, these goods and services registered a growth by 17.4%. Of

course, it is possible to reduce this result by omitting the remaining goods and services that were under control in the previous period (for instance, sugar, oil, pharmaceutical products, tobacco etc.). Nevertheless, the prices of part of these goods and services were liberalized already last year, so that some of them were deliberately left out.

In view of the fact that industrial producer prices dropped in July, basic inflation should be expected to remain close to its July level, while trends of the general level of prices over the next few months will depend on decisions concerning the liberalization of prices.

The stability of prices for municipal and transport services is largely the product of two factors: the low standard of living in the population in Serbia and the unstable political situation, i.e. the possible shortening of the political cycle. The diminishing patience of citizens, mentioned in the Analysis of the issue, will quite certainly induce the republican government to maintain the citizens' purchase power at the present level by preventing further corrections.

A correction of the expected inflation for this year, ranging between 45% and 50%, is inevitable

Annual Inflation in FRY



Growth Rate of Consumer Prices^A

	I	II	III	IV	V	VI	VII	I-VII 2001
CPI	103.2	101.5	102.3	111.3	103.5	104.7	101.8	131.7
Food, beverages, tobacco	100.8	100.1	103.0	110.0	104.4	101.6	101.4	123.0
Living Nutrition	99.41	100.94	106.65	117.28	101.95	102.97	101.71	133.99
Foodstuff ^B	101.7	99.6	100.5	105.2	106.1	100.6	101.2	115.7
Housing	113.90	102.62	102.73	127.59	101.24	119.06	100.54	185.66
Electricity	100.06	100.00	100.00	159.29	100.00	139.68	100.00	222.63
Utilities	189.34	108.40	101.93	102.11	103.35	100.63	100.41	223.08
Rent ^B	111.0	104.4	106.4	94.3	102.2	97.9	101.3	128.6
Transport and Telecommunication	103.53	104.46	99.98	109.43	100.31	102.54	118.53	144.26
CPIB	102.6	101.5	101.3	104.2	104.6	101.3	101.3	117.4

^A 33.42% of goods and services from the consumer basket are eliminated.

^B Goods and services have been eliminated.

Source: Republican Bureau of Statistics.

in the event of a change in the plans concerning the increase in the price of electricity (the October growth of the electricity price represents the IMF's criterion for structural performance). It is possible that the postponement of this price growth would be compensated for by other measures, for instance the extension of wage control in the public sector, which is a somewhat less unpopular measure.

Observing the consolidated budget of the Republic of Serbia for 2000, it is obvious that as much as 38% of the budgetary deficit was caused by losses of state-owned companies (EPS, NIS, ŽTP). A termination of the monetary financing of the quasi-fiscal deficit implies the kind of increase in prices that would bring the Serbian Electric Power Company (EPS) to the level at which the prices would cover the costs of operations. On the other hand, this price increase would empty a large portion of the consumer basket and would cause certain social tensions. As the use of instruments within the stabilization plan is in the function not only of the goals, but of social restraints as well, this remains an open issue.

Wages

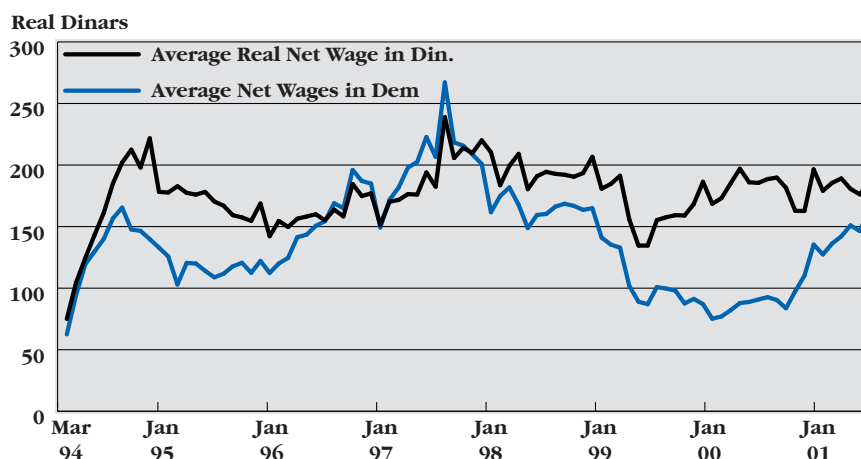
The average net wage in Serbia in July was 6,268 dinars (206 DEM) according to the new calculation method and 5,427 dinars (178 DEM) according to the old one. In the same month, the average gross wage was calculated to be 9,003 dinars, thus approaching the figure of 300 DEM. Both wage calculation methods register growth of a little over 13 percent month-on-month. It is notable that the real wage in dinars, of the same purchasing power, converges towards the wage expressed in DEM. The July average net wage in Serbia, expressed on the basis of the previous calculation method, recorded a nominal growth of 9.1% relative to June. The difference between the net wages according to the previous and the new calculation methods has increased and it accounts for 15.5% this month. The real purchasing power of wages, expressed by the ratio of the nominal net wage index and the consumer price index, was up 7.2% compared to June. A comparison with last July shows a real increase in wages by 9.2%, while a comparison with the first seven months of last year demonstrates somewhat more moderate growth (5.5%).

One should be very cautious when making an analysis of wage trends. Observed by the structure of the population's income, gross wages, calculated according to the approximately same method, increased 293% relative to the first seven months of last year. On the other hand, payments to the population that are not included in earnings registered a growth of only nine percent, even though this category was of exceptional significance over the previous years (17.3% of the total income compared to 6.4% in 2001). This means that other forms of payment have been replaced by gross wages, i.e. that all the three methods of presenting wages have registered a growth for this reason.

The total income of the population of the FRY in July was worth 57.6 billion dinars according to official figures of the NBJ's Institute for Accounting and Payments. Gross income of the population was paid out in the amount of 18.7 billion dinars, and pensions in the amount of 6.9 billion dinars. On the other hand, a total of 29.8 billion dinars were collected from the population in the course of July. Out of this amount, 24.6 billion dinars were received from the realization of products and services, i.e. 4.3 billion dinars from the collected taxes and contributions.

Taking into account the mentioned analysis of wage trends, one must also be cautious when commenting on the divergence of the trends of productivity and wages. The indicator of productivity represents the ratio between industrial production and the number of employees. An increase in industrial production, along with the launching of a more intensive restructuring process, is to take place in the last quarter of the year. Nevertheless, since wages are above the equilibrium level, no major increase in productivity should be expected over the following months. On the other hand, the mentioned corrections of prices would once again reduce the purchasing power of wages. In a situation where it is not possible to increase wages further, their maintenance at the same level in real terms is possible only if the further liberalization of prices is halted.

Average Real Wage and Industrial Worker Productivity



Average Net Wages, Unemployment Benefits and the Poverty Line

in USD	Average daily net wage	Average daily unemployment benefit	Poverty line ¹ - daily
01/01	1.97	1.48	1.20
02/01	2.29	1.60	1.29
03/01	2.13	1.50	1.18
04/01	2.30	1.58	1.31
05/01	2.17	1.51	1.32

¹ Consumer basket per household member.

Unemployment

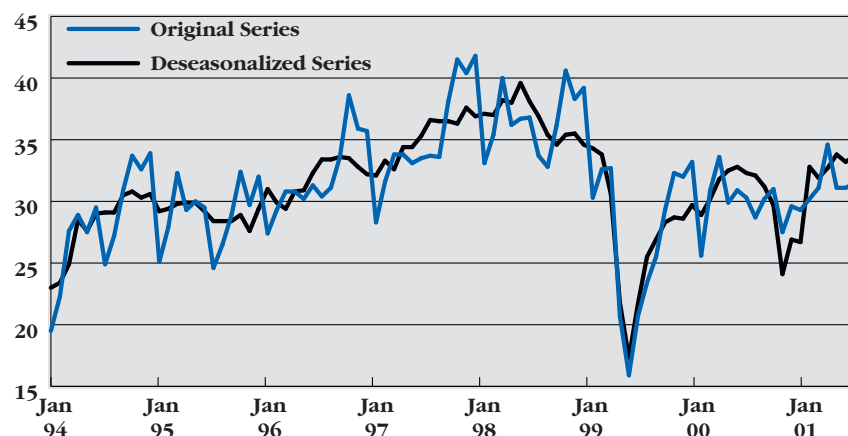
The registered unemployment rate in Serbia for June 2001 was 28.7%. The number of unemployed in Serbia, in July 2001, reached the figure of 772,611 persons, which is up by 7% from July 2000. However, since May 2001, an increase has been registered in the number of unemployed receiving pecuniary compensation. For the first time, the number of the unemployed receiving pecuniary compensation exceeded 50,000 persons. So-called redundant workers account for the largest number of them.

The unemployment growth is not just the result of low productivity caused by the lack of capital investments over the previous period, but also of the process of revealing covert unemployment, as an integral part of restructuring.

The more efficient collection of contributions for unemployment insurance in the January-May 2001 period led to the reduction of the share of gross wages (net unemployment benefits + contributions for pension and disability insurance) in total revenues for unemployment insurance, which is a positive trend. Thus, somewhat more money is left for financing active measures within the labor market policy, but not even remotely enough for the realization of a program that would effectively resolve the problem of overt and covert unemployment in the process of the restructuring of companies. Therefore, the realization of the launched reforms in the upcoming period is not possible without donations and credits for structural adjustment from international financial institutions.

The average monthly pecuniary compensation paid out to employees under the law (for a period of between three months and two, years depending on the duration of the insurance), accounts for around 70% of the average net wage in Serbia. This quite certainly does not have a stimulating effect on the employed seeking new jobs even before the expiration of the legal deadline. Nevertheless, unemployment benefits and wages are relatively low compared to the costs of living. If we observe the average net wage and the average net compensation for the unemployed in relation to the poverty line, we can conclude that both unemployment benefits and average wages are very low. The coefficient of employment per household is only a little over one, while the average number of household members is 3.4.

FRY Industrial Production
(1989 = 100)



Output

Industrial output in the FRY in July 2001 dropped by 9.7% relative to the preceding month. In Montenegro, output dropped by 9.3%, and in Serbia by 9.7%. In Central Serbia, the drop in output was 4.2%, and in Vojvodina output was down 20.1% month-on-month. The deseasonalized index for July shows a 6.4% drop compared to June. Industrial output in Serbia in July 2001 was down by 6.2% compared to the same month last year, when the effects of the seasonal factors were the same. In Central Serbia, output dropped by 8.4%, and in Vojvodina by 0.8%. It would quite certainly be good to reexamine the indices of industrial output over the past few years due to the well-known patterns of touching up data.

In 19 sectors, output dropped in relation to the same month last year – from 4.2% (the production of electricity, gas and water) to 48.3% (the extraction of metal ore). Industrial output in the FRY in the January-

July 2001 period fell by 2.9% compared to the same period last year. Montenegro registered a drop of 0.4%, and Serbia was down 3.1%. In Central Serbia, output fell 6.6%, while it was up in Vojvodina by 5.1%. Industrial output in the FRY in July 2001 was down by 70.7% relative to July 1989, and in the January-July 2001 period, down by 69.1% compared to the same period in 1989.

Several major occurrences can be linked to this downward trend in industrial output. The imposition of hard budget constraints has resulted in a drop in industrial output. Companies in the social and state sector have reduced access to "soft credits". Due to the high degree of illiquidity in the economy, a large number of companies were compelled to reduce output. One of the crucial problems is the lack of working capital. Through its program of multilateral compensation, the government is endeavoring to pull part of the companies out of illiquidity. An inflow of funds from donations and credits for restructuring as well as the reduction of interest rates would create conditions for the launching of industrial production. Such moves can be expected only in the last quarter of the year.

Foreign trade

The preliminary value of Serbian exports in July was USD 133 million, which represents a drop compared to June of 2.3%, and also relative to July 2000 of 9%. However, this year's exports are up 3.4% relative to the same period in 2000. Preliminary July exports were worth USD 267 million. This year's imports were larger by almost a fifth compared to the first seven months of last year. The foreign trade deficit has been at the level of USD 1.4 billion since the beginning of the year, i.e. it was up by 28% relative to the same period last year. Such dynamics corresponds to the projected foreign trade deficit of USD 2.4 billion for the year.

An analysis of the structure of sectors and sections by Standard International Trade Classification shows the largest share of exports held by ferrous metals (USD 152 million, i.e. 15% of the total), with an approximately unchanged level compared to last year. A considerable share is also held by the sectors of machines and transport devices (USD 134 million, i.e. 13% of total exports), as well as by food and live animals (USD 121 million or 11% of exports). However, exports of food and live animals dropped in relation to the first seven months of last year by 17%.

Machines and transport devices comprise one fifth of imports at a value of over half a billion USD. This is primarily thanks to the automobile imports achieved in the first seven months of this year at a value of USD 133 million. The value of imported power sources was USD 368 million, of which oil accounted for 7% of total imports, natural gas for 5% and electricity for 3%.

The largest amount of the funds for imports of electricity and the maintenance of the electric power system was ensured from foreign donations. The total value of donations for these purposes, starting from the end of last year and ending with June, was, according to a rough estimate, USD 160 million, of which over half of the projects have already been completed.

The real hard currency exchange rate continues to appreciate, but its trend is still in negative correlation with the trend of exports, although to a far lesser extent than in the previous periods when pronounced restrictions were imposed on exports. The correlation coefficient for the entire observed period is 0.40. Econometric analysis demonstrates that both variables possess one qualified unit root each, this fulfilling the preconditions for the testing of the co-integrative relations between them. The application of the Johansen test has shown, however, that there is no correlation between the trends of these time series. For explaining the export trends it is necessary to link exports to some other variables, primarily imports themselves, i.e. with available imported raw material. Until practically the end of the first half of the year, imports were in a relatively normal interrelation with the real hard currency exchange rate.

We have observed the real hard currency exchange rate in two manners, deflating it in one case by the inflation rate, and by the wage index in the other. This second indicator serves to show how the wage trend affects the competitiveness of domestic exports. As can be seen from the graph, both indicators have a similar trend in the observed period. The appreciation of the real hard currency exchange rate, which began in the last quarter of the previous year, suggests that the competitiveness of the Serbian economy has considerably dropped in the meantime. However, if one takes into account the fact that real wages were low and that many prices were kept under control at the beginning of that period, such a trend in the exchange rate is expected. This brings us back to the beginning of our story, i.e. that the degree of the appreciation and the moment when the dinar could begin more significantly to fluctuate will depend on the pace of the liberalization of prices and the wage trends.

Encouraging is the fact that imports of consumer goods have fallen, while an increase has been registered in imports of equipment (by 35%), raw material and production materials (by 30%) and spare parts (by 50%) compared to the first seven months of last year.

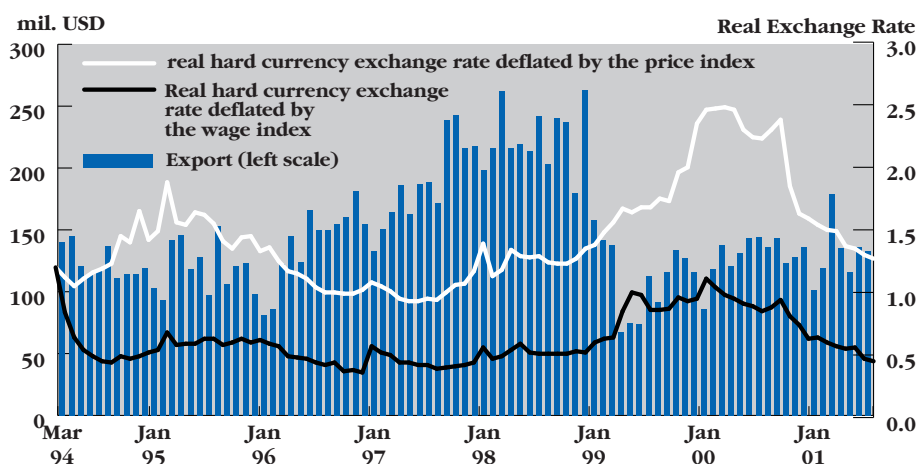
The National Bank's hard currency reserves continue to grow. In mid August, their level had increased by over 80% relative to the beginning of the year, so that they now cover nearly 2.7 months of imports (if we observe this year's average monthly imports). This level has exceeded by over % the level projected to be achieved by the end of the year. These projections did not take into account the hard currency reserves and the monetary gold of the SRFY. According to the recently reached agreement on succession, the Federal Republic of Yugoslavia received around 38% of this old reserve, resulting in a considerable increase in the level of the country's hard currency reserves in the course of June. However, there were other causes of the growth of the hard currency reserves, primarily the establishment of control by the NBJ over the purchase and sale of hard currency, as well as donations from abroad. It is to be expected that such a trend will continue in the upcoming period as well, and that reserves will reach the level of a billion USD. Apart from donations from abroad, the reason for the increased demand for dinars will also be the stability of the hard currency exchange rate and the still low real income of the population, due to which many opt for converting their hard currency savings and remittances from abroad into dinars.

In the next issues of the Review we will try to establish how competitive Serbian exports are and which are the sectors where our comparative advantages lie. What is now obvious is that the structure of exports and imports in most of the sectors is quite diversified, so that it is difficult to determine at lower levels of aggregation which products and sectors are export-wise propulsive.

Monetary and fiscal policy

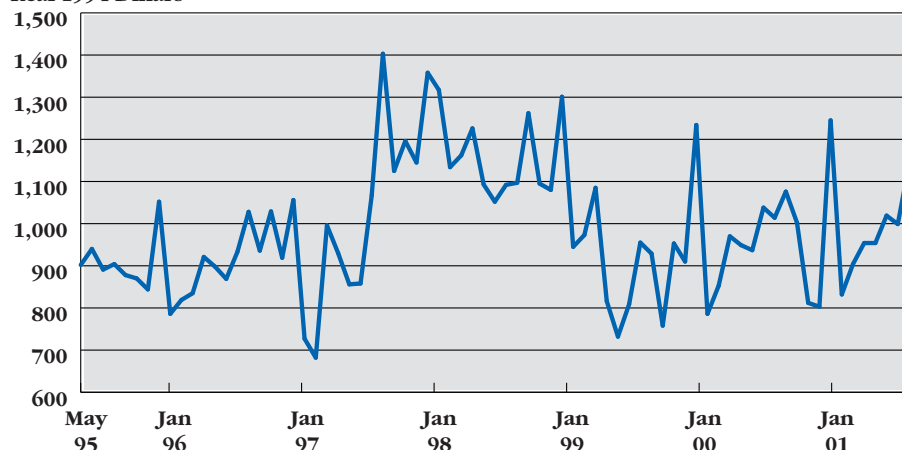
The money supply increased further in the course of July from 43.01 billion dinars to 45.32 billion dinars, which represents growth of 5.38%. Since the growth of M1 proceeded faster than the growth of hard currency reserves, the coverage of the M1 aggregate by hard currency reserves fell from 139.3 to 135.8 percent, but it is still at a satisfactorily high level (over 100%). At the same time, the amount of cash in circulation increased by 7.55%, so that its share in M1 increased to 33.32%. Hard currency transactions were, like throughout 2001, the only source of the primary issue of

Trends of Real Hard Currency Exchange and Export



Public Revenues

Real 1994 Dinars



3.75 billion dinars were collected in July.

The interest rate on short-term securities at the Belgrade exchange was 4.96% on a monthly basis. After eight months of a constant drop, the interest rate stabilized in June and July at a level below 5% per month, which is an important fact that could lead to the revival of economic activity. It is interesting that the trend of the constant mild reduction of the interest rate on the money market has absolutely no effect on the retail price growth rate. The real interest rate was negative in April, while it was close to the high nominal monthly interest in March. In view of the fact that the hard currency exchange rate is stable, it is clear that it is far more profitable to invest surplus money in dinars, than in foreign currency, so that the high nominal interest rates have an appreciating effect on the hard currency exchange rate.

These relations have yet another interesting implication. The significance of the hard currency exchange rate as the standard against which interest rates are formed, is dominant. Any intimation of a major change in the hard currency exchange rate would initiate speculative activities on the money market.

The program of multilateral compensation, whose goal is to increase the level of liquidity, has also produced interesting results. The number of illiquid companies dropped from 28,120 in May to 17,015 in July. The liabilities of illiquid legal entities were drastically reduced from 135 billion in May

to 67 billion in July. The large reduction in the liabilities of illiquid legal entities lies primarily in the withdrawal of the court order to the benefit of Srpska Komercijalna Bank against the "Robne Kuće Niš" chain of department stores at the amount of 55.5 billion dinars. This move followed the June revocation of Srpska Komercijalna Bank's operating license. This enormous debt of "Robne Kuće Niš" is the result of a credit worth 81,268 dinars obtained on January 19, 1996 at a monthly interest rate of 24.14%. This example illustrates how certain banks artificially inflated their assets and thus continued to operate. A further reduction has been announced, whereby similar claims by the banking system have been reduced to realistic proportions.

In the January-July period relative to the same period last year, an impressive growth of the revenues of social insurance organizations,

by 2.4 times over, was achieved in Serbia without Kosovo-Metohija. Within total revenues for social security, the fastest growth was achieved by pension and disability insurance (246%), followed by health insurance (221%) and revenues for unemployment insurance (219%). Rising efficiency in the collection of contributions for social security makes possible a relatively stable servicing of the rights of beneficiaries.

However, funds are remain lacking for paying out pension arrears (around USD 170-180 million) and servicing the citizens' rights stemming from pension and disability insurance in Kosovo-Metohija.

Income of the Organs of Social Security

